

Nanoco Group

Another major milestone delivered

Following a successful proof of concept, Nanoco recently announced a new joint development agreement (JDA) with its existing European customer, now confirmed as STMicroelectronics. This milestone further validates Nanoco's smart materials capabilities, building on the first commercial orders for first-generation materials shipped in late 2023 and the expanded partnership with its Asian customer. With an improved financial position, Nanoco has been able to proactively invest in accelerating the development of new materials and services. The non-licence fee income and additional test material sales from the JDA help de-risk our FY24 revenue forecasts. Securing collaborations like this JDA will be key for Nanoco to continue scaling commercial production and delivering on management's goal of becoming self-financing in CY25.

Year end	Revenue (£m)	EBITDA* (£m)	PBT* (£m)	EPS* (p)	EV/sales (x)	P/E (x)
07/21	2.1	(2.8)	(4.7)	(1.3)	28.7	N/A
07/22	2.5	(2.1)	(4.6)	(1.3)	24.3	N/A
07/23	5.6	(0.4)	(3.6)	(0.7)	10.7	N/A
07/24e	8.6	1.3	(0.4)	(0.1)	7.0	N/A

Note: *EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

The two-year JDA with STMicroelectronics builds on the 2023 commercial order for two of Nanoco's first-generation sensing materials, expanding an existing relationship to optimise second-generation sensing materials. Key milestones now include delivering follow-on orders for its first-generation materials over FY24 and/or FY25, as well as achieving superior electrical properties with these second-generation materials, such as enabling faster devices and stronger durability.

If successful, there is scope for Nanoco to expand commercial orders into many more devices ranging from low to high volumes within STMicroelectronics' more than 200,000 customers. We believe the JDA validates the company's expertise, delivery capability and financial security, which will be key to supplying into high-volume devices.

If technical milestones are achieved over the two-year programme, the next step would be scaling the material into an industrialised, high-volume process, with Nanoco's expanded Runcorn facility capable of providing the production capacity. Beyond STMicroelectronics, other key milestones include making progress with the Asian customer JDA and adding a third partner, potentially in display.

Nanoco's current market cap of £61.6m remains broadly similar to the planned £33–40m shareholder return (mechanism to be determined) plus the £20m expected to be retained. This implies the market is assigning almost no value to Nanoco's commercial opportunities, which have taken a meaningful step forward with last Friday's announcement, its expanded manufacturing capability and its proven intellectual property in an important domain. Given the significant progress Nanoco has demonstrated over the past two years and the further important commercial milestones management expects to deliver in FY24, this seems to be an overly pessimistic valuation scenario.

Development agreement

Tech hardware and equipment

15 January 2024

Price **20p**

Market cap **£64m**

Net cash (£m) at 31 July 2023 3.6

Shares in issue 324m

Free float 84%

Code NANO/NNOCF

Primary exchange LSE

Secondary exchange OTC

Share price performance



Business description

Nanoco Group is a global leader in developing and manufacturing cadmium-free quantum dots and other nanomaterials, with c 375 patents. Focus applications are advanced electronics, displays, bio-imaging and horticulture.

Analysts

Max Hayes +44 (0)20 3077 5700

Dan Ridsdale +44 (0)7930 166512

tech@edisongroup.com

[Edison profile page](#)

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